

## Market and Trade Trends

# In Russia and Poland, Trends Are Portentous and Promising

### Russia, World's Fastest Growing Retail Market

**R**ussia is the world's fastest growing retail market, thanks to six straight years of strong economic expansion. According to official sources, total retail turnover in 2003 was \$146 billion (including \$68 billion for food retail turnover), although unofficial estimates place total sales at least 50 percent higher.

The expanding market has caught the attention of domestic and foreign retailers. The retail sector is in a building frenzy, with supermarket chains cloning themselves. Many networks will double in size.

Experts forecast growth will peak by 2012; so for U.S. retail food exporters, the clock is ticking. Moreover, Russia is quite a mature, sophisticated market in which many countries, especially those in Western Europe, are active competitors. However, an expanding economy (with per capita *monthly* income projected to reach \$600 nationwide and \$1,500 in Moscow by 2012), a population of 143 million and favorable euro/dollar and ruble/dollar exchange rates make Russia an important potential market for U.S. exporters.

Consumer surveys and importers suggest that Russians want more U.S. products, and that quality and diversity will become more important.

There are other factors prospective exporters should bear in mind. Russia's geographic size (double that of the



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United States, with 10 time zones!) presents a challenge. Its population is 70 percent urban—13 cities have populations of 1 million or more. Most of the total population resides west of the Ural Mountains, in the area known as European Russia. But the Russian Far East offers a natural market from the U.S. West Coast.

Moscow is an engine of growth. With nearly 20 million consumers, the city and its environs account for more than 30 percent of the nation's retail trade, and per capita income is three times the national average. The city also attracts about 40 percent of foreign investment.

However, economic prosperity is spreading quickly to St. Petersburg and other cities. And contrary to what might be expected, retail growth in regional markets is outstripping the rapid retail growth in Moscow.

Retail prices can vary significantly between relatively nearby cities and even

areas within the same city. However, with the spread of large retail chains, pricing is becoming more competitive.

The most visible sign of growth in the retail food sector has been the rapid introduction and expansion of Western-style supermarket chains. Several foreign retailers, including Metro and Auchan, have already opened outlets and announced plans for further expansion in Moscow, St. Petersburg and other cities.

Carrefour opened an office in Moscow in 2003 and is considering opening several hypermarkets there and in St. Petersburg. Other retailers (including Wal-Mart) are also rumored to be eyeing the Russian market.

Several local supermarket chains (Perekryostok, Seventh Continent, Pyatorochka and Kopeika) and one foreign early entrant (Ramstore) have all launched equally ambitious expansion plans. While some of them are focusing on smaller neighborhood stores, the trend is definitely toward increasingly larger supermarkets and hypermarkets. Financing for many of these projects is coming from the Russian oil industry, which is looking for profitable ways to invest its earnings.

A key aspect of the growth of the super- and hypermarket chains is the fact that such stores are more likely to attract middle and upper income buyers. All foreign and most local chains offer bright, clean and convenient facilities, good service and selection and relatively good value. So these outlets offer the best opportunity to introduce and expand sales of U.S. food products. And although they currently account for a relatively small

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share of total retail sales, supermarkets and hypermarkets make up one of the fastest growing parts of Russia's retail sector.

The HRI (hotel, restaurant and institutional) sector is making an impressive comeback, as reflected in the growth of fast-food outlets and mid-level restaurants. Total HRI turnover expanded by more than 5.8 percent in 2003 (\$7.5 billion). Among the fastest-growing chains are imports such as McDonald's and Sbarro, and some very successful local chains like Rostiks—Russia's answer to KFC.

While most fast-food franchises source food locally as much as possible to keep costs and prices down, a number of foreign-theme restaurants (American Bar and Grill, Starlite Diner, Planet Sushi, etc.) use some U.S. products and offer good potential for greater imports, including beef, pork, seafood and wines. Portion-controlled and other semi-prepared foods should also gain in popularity. Expansion in upscale restaurants will continue to offer the best prospects for high-end U.S. wines, marbled beef and specialty seafood.

Meanwhile, the increasing sophistication of local food processors is increasing competition for some imports. But rapid growth in domestic processing is creating opportunities for a wide range of food ingredient imports. Also, as the Russian economy improves and consumer incomes grow, processors are finding it necessary to source new and better ingredients to maintain market share.

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### Poland's Retail Transformation

Poland's retail sector continues to undergo radical transformation, spurred by the country's modernization, growing consumer incomes and accession to the EU (European Union) on May 1, 2004. Hypermarkets are projected to expand to over 300 by 2005 and will account for about 50 percent of retail food sales in the next five years. The growing popularity of hypermarkets is reflected in their increasing number of outlets, and the fact that they are becoming the main source of household supplies for many consumers.

However, prospects for U.S. sales are hampered by stiff Polish and other EU competition, stringent food ingredient regulations, EU biotechnology constraints and costly terms to get products onto large retailers' shelves.

Foreign capital and new standards of distribution and trade have not only shown Polish retailers new ways of operating their businesses, but also challenged them to create their own methods to attract and retain customers. Polish retailers also have begun concentrating and consolidating processes to strengthen their market position in the face of globalization. However, given the limited investment possibilities for local companies, rapid growth in the retail market share held by foreign companies (virtually all West European) seems inevitable.

Nevertheless, compared with Western Europe, the Polish retail trade is still fragmented, with 38 percent (15 million people) of the population living in over 50,000 villages. The fact that 98.6 percent of retail companies have no more than two shops is further evidence of the dis-



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persed retail structure. Organizations owning more than 20 shops represent less than 0.1 percent of companies in this sector.

In 2003, the rate of growth of shops with floor space exceeding 400 square meters was 11 percent. This growth rate likely will slow in coming years. The rapid growth in the number of super- and hypermarkets of the 1990s has also slowed.

While U.S. exporters confront several major challenges in this new EU market, including time-consuming and expensive certification procedures, prospects may improve due to the weakened U.S. dollar and rising consumer incomes. Goods such as wines, distilled spirits, dried fruits (prunes), nuts (almonds, peanuts), grapefruit and some seafood (salmon) have found a stable place on shelves of retail outlets in Poland. ■

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